

Message Text

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ACTION EUR-12

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TAGS: BFIN, AFIN, CGEN, PFOR, AFSP, BU

SUBJECT: BULGARIAN FOREIGN TRADE BANK COMMENTS ON RECENT REVALUATION

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FURTHER REVALUATION MAY BE EXPECTED

VIENNA FOR EWTC

REF: SOFIA 1983

1. DCM AND EMBOFF CALLED ON PETAR MARINOV, MEMBER OF BOARD

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BULGARIAN FOREIGN TRADE BANK NOVEMBER 5 TO DISCUSS RECENT

REVALUATION NON-COMMERCIAL (TOURIST) EXCHANGE RATE FOR BULGARIAN LEVA. DURING COURSE OF CONVERSATION MARINOV INDICATED THAT PREMIUM ON COMMERCIAL EXCHANGE RATE MAY BE ELIMINATED ALTOGETHER AT UNSPECIFIED TIME IN FUTURE. HE CLAIMED THAT SINCE REVALUATION WAS ONLY "PARTIAL" THE INITIAL EFFECT ("BLOW") WOULD NOT BE TOO GREAT. NON-COMMERCIAL EXCHANGE RATE FOLLOWING REVALUATION STANDS AT ONLY 1.20 LEVA EQUALS \$1 US, BUT COMMERCIAL EXCHANGE RATE, BASED ON GOLD STANDARD, REMAINS 0.97 LEVA EQUALS \$1 US.

2. ACCORDING TO MARINOV, BULGARIA FIRST ADOPTED DUAL EXCHANGE RATE IN 1964. THE PRACTICE HAS BEEN UNDER STUDY FOR SEVEN YEARS. HE SAID HE HAD HIMSELF RECOMMENDED ABOLITION OF EXCHANGE RATE PREMIUM THREE YEARS AGO. ULTIMATE DECIDING FACTOR, ACCORDING MARINOV, WAS INFLATION IN WEST WHICH PUT LEVA OUT OF PARITY WITH WESTERN CURRENCIES SUCH AS US DOLLAR. BULGARIAN STUDIES ON PRICES OF SOME 100 GOODS AND SERVICES IN COMPARISON WITH THOSE OF WESTERN COUNTRIES WAS BASIS FOR REVALUATION. ALSO AGREED ACTION WAS DESIGNED TO ASSIST IN KEEPING INFLATION OUT OF BULGARIA. IN RESPONSE DCM'S QUESTION OF EFFECT ON TOURISM, MARINOV IMPLIED THAT THIS FACTOR NOT PART OF CONSIDERATION IN REVALUATION AND STATED HE DID NOT KNOW WHAT THE EFFECT ON TOURISM WOULD BE WHICH REMAINED TO BE SEEN. DCM, WHILE NOTING BULGARIA RETAINED A GOOD CREDIT RATING, RAISED QUESTION ABOUT INDICATIONS THAT BULGARIA'S HARD CURRENCY RESERVES WERE LOW. MARINOV DECLINED TO COMMENT AND REMINDED DCM THAT SUCH DATA NOT PUBLISHED IN BULGARIA. HE DID STATE THAT REVALUATION DID NOT TAKE PLACE TO ADJUST FLOW OF FOREIGN TRADE WHICH IS CONTROLLED IN OTHER WAYS.

3. WITH REGARD TO INFLATION, MARINOV STATED BULGARIA HAD NOT EXPERIENCED ANY SINCE 1968. DCM FIRMLY DEMURRED, NOTING RECENT EXORBITANT RENT INCREASES FOR STAFF HOUSING, CHANCERY, AND WAREHOUSE WHICH COMBINED WITH REVALUATION MADE FOR TRULY BURDENSOME COST INCREASES FOR EMBASSY. MARINOV, WHOSE STATEMENT BASED LIMITED OFFICIAL USE

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ON STUDY INVOLVING COSTS OF GOODS AND SERVICES MENTIONED ABOVE, INDICATED HE WAS NOT FAMILIAR WITH SUCH MATTERS. HOWEVER, HE SAID BULGARIAN DIPLOMATIC MISSIONS ABROAD WERE WRITING "EVERY THREE MONTHS" FOR READJUSTMENTS BASED ON PRICE INCREASES AS WELL AS FOR INCREASED SALARIES. HE CLEARLY IMPLIED THAT THE BULGARIAN ACTION WAS A RECIPROCATION FOR INCREASES IN THE WEST.

4. DESPITE MARINOV'S NONCOMMITTAL REMARKS REGARDING TOURISM, NUMEROUS DIPLOMATIC COLLEAGUES IN SOFIA WHOSE CITIZENS CONSTITUTE THE BULK OF WESTERN TOURISTS TO BULGARIA THINK TOURISM WAS THE BASIS FOR GOB'S ACTION. BULGARIAN TOURISM IS BASED ON CUT-RATE PRICES, AND ONE RUMOR HAS IT THAT TOUR PACKAGES WILL REMAIN THE SAME IN COST AND THAT TOURISTS WILL ONLY BECOME AWARE OF THE NEW COSTS ONCE WITHIN BULGARIA. OTHERS SAY PACKAGE COSTS WILL INCREASE AND THIS IS DELIBERATELY DONE TO SLOW THE INCREASE IN TOURISM AND ALLEVIATE THE VERY APPARENT STRAIN ON BULGARIAN TOURIST FACILITIES. TO THE LATTER RUMOR MARINOV ONLY STATED THAT TOURIST FACILITIES IN BULGARIA HAVE ALWAYS BEEN STRAINED. EMBASSY TENDS TO DISCOUNT BOTH RUMORS IN FAVOR OF THEORY THAT BULGARIAN REACTION IS INDEED LARGELY IN RESPONSE TO INFLATION IN WEST.

5. MARINOV IMPLIED THAT CZECHOSLOVAKIA, HUNGARY AND POLAND WOULD PROBABLY BE TAKING SIMILAR ACTION.
HERZ

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